Merchandising

by Sophia

WHAT'S COVERED

This tutorial will cover the topic of merchandising.

Our discussion breaks down as follows:

1. Merchandising

Merchandising is defined as buying products for resale to customers, rather than selling services. So, what exactly do merchandisers do? Well, they purchase **inventory**, which refers to the products that a company owns for resale to customers; it is *selling* inventory. Merchandisers, then, purchase inventory and sell that inventory to customers.

EXAMPLE An example of merchandisers who sell goods would be department stores or grocery stores. This means that they are purchasing goods to resell them to the consumers. On the other hand, service providers would be tax preparers or repairmen, for instance. This involves paying someone to provide a service, rather than providing goods.

TERMS TO KNOW

Merchandising
Buying products for resale to customers, rather than selling services.

Inventory
The products that a company owns for resale to customers.

2. Merchandising Accounts

Now, let's look at some of the unique accounts that are involved when performing accounting for a merchandising company. There are several additional accounts that merchandisers use:

Merchandising Accounts	Description
Inventory	The products that a company owns for resale to consumers. It is the financial value of product held for resale.
Cost of Goods Sold	The cost of inventory that a company has sold during a given period. Specifically, it is the dollar value of what it cost the merchandiser for the units sold during the period. It is important to note that cost of good sold is the cost of what was actually sold, not how much it was sold it for.
Freight on Board (FOB)	The freight terms that designate whether the buyer or seller pays the freight, and when ownership is transferred to the buyer. There are two types of freight on board: 1. FOB destination, which is when the ownership of merchandise does not transfer until it arrives at the store. This means that once it is in the possession of the merchandiser, that is when the ownership is transferred. 2. FOB shipping point, which is when ownership transfers as soon as it leaves the shipper. As a merchandiser, when you buy something, if it is FOB shipping point, you own it as soon as it leaves the shipper, whereas if it is FOB destination, you don't have ownership of those goods until they arrive at your store.

TERMS TO KNOW

Cost of Goods Sold
Cost of inventory that a company has sold during a period.

Freight on board (FOB)
Freight terms that designate whether the buyer or seller pays the freight and when ownership is transferred to the buyer.

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3. Cost of Goods Sold

Let's look a bit closer at the cost of goods sold account, as well as a calculation of cost of goods sold. As mentioned, cost of goods sold is the cost of inventory that a company has sold during a given period.

What information do we need to calculate cost of goods sold? Well, we need to know:

- Number of items in inventory--both what is available and what was sold
- Cost of those items in inventory

HINT

Cost of goods sold only includes direct costs used to create the goods, excluding indirect costs like distribution and marketing.

EXAMPLE Suppose we're a merchandiser and we purchased 1,000 couches for resale to the customer, and it cost us $100 per couch, so that is $100,000 and relate to what is available.

Now suppose we sold 500 couches, for $200 each, which also comes out to be $100,000. So, of those 1,000 couches, we sold 500 couches, and we received $200, from our customer, for each couch.

Now, to calculate the cost of goods sold, the focus is on the units that we sold. We sold 500 couches, but that originally cost us, the merchandisers, $100 each. So we're not worried about the $200 we got for selling them. It's that we've sold 500 couches, and they cost us $100 each.

That means, in this case, in this example, our cost of goods sold would be $50,000: 500 couches sold times the $100 purchase price of each of those couches.

Cost of Goods Sold Example		
Available	Purchase 1,000 couches for $100 each	1,000 X $100 = $100,000
Sold	Sold 500 couches for $200 each	500 X $200 = $100,000
Cost of Goods Sold	Sold 500 couches that originally cost $100 each	500 X $100 = $50,000

SUMMARY

Today we learned about **merchandising**, which is buying products for resale to customers, rather than selling services. We learned about the specific **merchandising accounts**: inventory, which is the products that a company owns for resale to customers, meaning the financial value of products held for resale; cost of goods sold, which is the cost of inventory that a company has sold during a given period; and FOB, or freight on board, which is the freight terms that designate whether the buyer or seller pays the freight, and when that ownership is transferred to the buyer. Remember, in FOB destination, the merchandiser doesn't own the goods until they arrive at their store, whereas in FOB shipping point, the merchandiser owns the goods as soon as they leave the shipment facility. Lastly, we explored **cost of goods sold** in further detail, including an example of calculating cost of goods sold.

Source: Adapted from Sophia instructor Evan McLaughlin.

TERMS TO KNOW

Cost of Goods Sold

The cost of inventory that a company has sold during a period.

Freight on board (FOB)

Freight terms that designate whether the buyer or seller pays the freight and when ownership is transferred to the buyer.

Inventory

The products that a company owns for resale to customers.

Merchandising

Buying products for resale to customers, rather than selling services.